EHLANZENI DISTRICT MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2012

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

General Information

Mayoral committee	
Executive Mayor	LN Shongwe
	MJ Mavuso
	TB Mdluli
	MJ Mnisi
	BN Mdakane
	ET Mabuza
	NC Hlophe
	SP Monareng
Councillors	HL Lekhuleni
	TR Makhubela
	ML Mathebula
	KR Mkhari
	TC Dibakoane
	MW Nkhata
	LL Hadebe
	SD Maebela
	MM Mthali
	BK Mokoena
	TP Maphanga
	L Sithole
	SJ Mkhumbane
	RG Herbst
	GP Mkhombo
	PR Rossouw
	RN Mnisi
	TR Makhubela
	MJ Morema
	LC Dlamini
	TM Charles
	JJ Khoza
	HK Malomane
	TP Manave
	NB Matume
	ET Mkhabela
	CN Mnyambu
	SI Mokoena
	M Mayinga
	DS Mthombothi
	DD Ngwenyama
	VL Nzimande
	SR Schormann
	GC De Bruin
	T Khoza
	WH Shongwe
	E Masilela
	M Zitha
	A Mabuza
	S Silombo
	G Mogiba

General Information

	DA Maphanga R Khumalo Z Godi VX Baloyi H Khumalo TR Makhubele VN Mzimba EN Khoza D Mashabane L Khoza BR Ncube S Ndlovu H Thobakgale SE Molobela MM Marobela E Essack LV Mashaba S Mabuza EI Shabangu
Grading of local authority	5
Chief Finance Off cer (CFO)	WJ Khumalo
Accounting Officer	Adv. H Mbatha
Registered office	8 Van Niekerk Street Nelspruit Mpumalanga 1200
Postal address	P O Box 3333 Nelspruit Mpumalanga 1200
Bankers	First National Bank Limited
Auditors	Auditor General

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 5 to 52, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2012.

I am responsible for the presentation of these annual financial statements, which are set out on pages 5 to 52 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councilors as disclosed in note 22 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance and Traditional Affairs determination in accordance with this Act.

Adv. H Mbatha
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	5	312,304	251,226
Receivables from exchange transactions	4	41,502,959	39,755,936
VAT receivable	7	226,966	10,322,717
Cash and cash equivalents	3	5,927,411	4,676,392
		47,969,640	**55,006,271**
Non-Current Assets			
Property, plant and equipment	10	249,123,023	276,310,169
Investments	8	400,068	375,381
Other financial assets	9	-	158,657
Work in progress	12	867,612	14,730,551
Capitalised pre-paid expenses	6	643,943	1,345,643
		251,034,646	**292,920,401**
Total Assets		**299,004,286**	**347,926,672**
Liabilities			
Current Liabilities			
Short term portion of long term liabilities	14	9,875,671	8,753,095
Finance lease obligation	15	-	3,005,966
Payables from exchange transactions	11	23,065,240	29,580,559
Unspent conditional grants and receipts	16	3,602,739	3,681,759
Provisions	13	17,783,412	11,590,893
Consumer deposits		6,000	6,000
		54,333,062	**56,618,272**
Non-Current Liabilities			
Long term liabilities	14	197,340,223	207,249,415
Finance lease obligation	15	-	8,943,425
		197,340,223	**216,192,840**
Total Liabilities		**251,673,285**	**272,811,112**
Net Assets		**47,331,001**	**75,115,560**
Net Assets			
Reserves			
Revaluation reserve	39	-	15,077,882
Accumulated surplus		47,331,001	60,037,678
Total Net Assets		**47,331,001**	**75,115,560**

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	28	-	69,968,160
Levies	43	-	33
Rental of facilities and equipment	17	72,401	2,482,685
Interest received	18	1,346,174	7,146,681
Dividends received	19	74,503	65,907
Government grants & subsidies	20	211,961,704	166,259,751
Revenue from non-exchange		-	6,481,083
Other income		508,512	4,529,223
Total Revenue		**213,963,294**	**256,933,523**
Expenditure			
Personnel	21	(65,123,043)	(61,257,920)
Remuneration of councillors	22	(11,457,746)	(9,996,539)
Audit fees	27	(1,209,413)	(2,487,384)
Depreciation and amortisation	23	(16,635,539)	(18,226,815)
Finance costs	24	(24,497,242)	(24,775,718)
Debt impairment	44	(158,657)	(37,415,199)
Repairs and maintenance		(95,456)	(175,047)
Contracted services	25	(4,547,759)	(3,865,012)
Grants and subsidies paid	26	(55,462,272)	(24,890,793)
General expenses	29	(27,326,064)	(26,518,275)
Total Expenditure		**(206,513,191)**	**(209,608,702)**
Loss on disposal of assets		(13,444,973)	(157,123)
Actuarial gain / (loss)		475,000	(952,000)
(Deficit) surplus for the year		**(5,519,870)**	**46,215,698**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Capital replacement reserve	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2010	**15,597,271**	**7,000,628**	**22,597,899**	**92,301,750**	**114,899,649**
Changes in net assets					
Surplus for the year	-	-	-	46,215,698	46,215,698
Transfer from/to accumulated surplus	-	-	-	(81,044,038)	(81,044,038)
Movement in reserves	(519,389)	(7,000,628)	(7,520,017)	7,520,017	-
Changes in estimates and net assets	-	-	-	(4,955,749)	(4,955,749)
Total changes	(519,389)	(7,000,628)	(7,520,017)	(32,264,072)	(39,784,089)
Balance at 01 July 2011	**15,077,882**	-	**15,077,882**	**60,037,680**	**75,115,562**
Changes in net assets					
Surplus for the year	-	-	-	(5,519,870)	(5,519,870)
Transfers from/to accumulated surplus	(15,077,882)	-	(15,077,882)	(7,186,809)	(22,264,691)
Total changes	(15,077,882)	-	(15,077,882)	(12,706,679)	(27,784,561)
Balance at 30 June 2012	-	-	-	**47,331,001**	**47,331,001**
Note(s)	39				

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
SARS VAT Refunds		16,732,729	33,384,263
Grants		209,996,782	166,259,751
Interest income		1,346,175	777,682
Dividends received		-	65,907
Other receipts		2,001,601	11,644,649
		230,077,287	212,132,252
Payments			
Employee costs		(76,580,789)	(71,254,459)
Suppliers		(115,458,609)	(141,232,996)
Finance costs		(24,497,242)	(24,775,718)
Other payments		(2,511,788)	(3,926,487)
		(219,048,428)	(241,189,660)
Net cash flows from operating activities	30	**11,028,859**	**(29,057,408)**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(2,992,365)	(264,487,528)
Proceeds from sale of property, plant and equipment	10	112,280	5,000
Proceeds from sale of work in progress		13,862,939	300,789,130
Net cash flows from investing activities		**10,982,854**	**36,306,602**
Cash flows from financing activities			
Repayment of long term liabilities		(8,786,616)	(18,265,850)
(Increase) / decrease in investments		(24,687)	-
Finance lease payments		(11,949,391)	-
Net cash flows from financing activities		**(20,760,694)**	**(18,265,850)**
Net increase/(decrease) in cash and cash equivalents		**1,251,019**	**(11,016,656)**
Cash and cash equivalents at the beginning of the year		4,676,392	15,693,048
Cash and cash equivalents at the end of the year	3	**5,927,411**	**4,676,392**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

Assets,liabilitie, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

These accounting policies are consistent with the previous period.

1.1 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

1.3.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.3 Property, plant and equipment (continued)

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.3.2 Subsequent measurement - revaluation model

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

1.3.3 Subsequent measurement - cost model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.3.4 Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Average useful life
Buildings	50
Furniture and fixtures	10-15
Motor vehicles	5-10
Office equipment	3-7
Other items of plant and equipments	5-10
Bins and containers	5-10

The residual value, and the useful life and depreciation method of each asset is reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Intangible assets

1.4.1 Initial recognition

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.4.2 Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1.4.3 Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software

The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1.4.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.5 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1.5.1 Initial recognition

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1.5.2 Subsequent measurement

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities at fair value through surplus or deficit - designated
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Financial instruments are initially recognised at fair value.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effect5ive interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

1.7 Financial instruments (continued)

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorization are met, or as loans and receivables, and are measured at amortized cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortized cost. Amortized cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

Payables from exchange transactions

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortized cost, are initially recognised at fair value and subsequently measured at amortized cost which is the initial carrying amount, less repayments, plus interest.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorizes cash and cash equivalents as financial assets: loans and receivables.

Bank overdraft and borrowings

Accounting Policies

1.7 Financial instruments (continued)

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortized cost.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.7 Financial instruments (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.8 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.9 Irregular expenditure

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.10 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.11 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Accounting Policies

1.11 Provisions and contingencies (continued)

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:(a) The municipality has a detailed formal plan for the restructuring identifying at least: - the business or part of a business concerned;- the principal locations affected;- the location, function, and approximate number of employees who will be compensated for terminating their services;

- the expenditures that will be undertaken; and when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

Under a finance lease, the municipality recognizes the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Finance leases - lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases - lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Operating leases - lessee

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

Accounting Policies

1.13 Revenue from exchange transactions

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.14 Revenue from non-exchange transactions

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

1.14 Revenue from non-exchange transactions (continued)

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

1.15 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number and 1.18. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting Policies

1.16 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

1.17 Revaluation reserve

The surplus arising from the revaluation of land and building is created directly to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus / deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus while gains and losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

1.18 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

1.18 Impairment of non-cash-generating assets (continued)

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.18 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.19 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Accounting Policies

1.19 Transfer of functions between entities under common control (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Useful lives

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges for property, plant and equipment and intangible assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.20 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard of GRAP requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative, but to make the payments.

Accounting Policies

1.20 Employee benefits (continued)

Post retirement benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.23 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Prior year comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Budget information

Budgeted amounts have been included in the annual financial statements for the current financial year only.

1.24 Contingent Liability

A contingent liability is:

(a) a possible obligations that arises from past events and whose existence will be confirmed only by the occurence or non-occurence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but isw not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits or services potential will be required to settle the obligation.

(ii) the amount of the obligation cannot be measured witht sufficient reliability.

Accounting Policies

1.25 Contingent Assets

A contingent asset is a possible assets that arises from past events and whose existence will be confirmed only by the occurence or non-occurence of one or more uncertain future events not wholly within the control of the entity.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:
- on disposal, or

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4,000	4,000
Bank balances	5,923,411	4,672,392
	5,927,411	**4,676,392**

The municipality had the following bank accounts

Current account (Primary bank account)		
FNB Nelspruit branch		
Account Number: 62113491419	2,433,972	1,327,579
Cash book balance at the beginning of the year		
Cash book balance at the end of year	1,327,579	12,297,403
	2,433,972	1,327,579
Bank statement balance at the beginning of the year	1,327,579	12,297,403
Bank statement balance at the end of the year	2,433,972	1,327,579

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011
3. Cash and cash equivalents (continued)		
Current Account (other accounts)		
FNB Nelspruit branch Account Number: 62 113 492 938	211,861	203,690
FNB Nelspruit branch Account Number: 62 113 495 916	431,114	413,582
FNB Nelspruit branch Account Number: 62 113 496 360	428,485	411,056
FNB Nelspruit branch Account Number: 62 113 496 708	988,888	947,348
FNB Nelspruit branch Account Number: 62 113 468 564	1,369,058	1,310,832
FNB Nelspruit branch Account Number: 62 113 499 554	60,033	58,303

4. Receivables from exchange transactions

	2012	2011
Other receivables	2,046,255	299,231
Trade debtors	39,456,704	39,456,705
	41,502,959	**39,755,936**

The fair value of trade and other receivables approximates their carrying amounts.

Reconciliation of provision for impairment of trade and other receivables

	2012	2011
Opening balance	(80,018,356)	(43,993,231)
Contribution to provision (other debtors)	-	(37,415,199)
Expenditure incurred/utilised during the year	-	1,390,074
	(80,018,356)	**(80,018,356)**

Trade debtors

2012

	Gross balance	Provision for doubtful debt	Total
Property rates	119,475,060	(80,018,356)	39,456,704
Other	2,046,255	-	2,046,255
	121,521,315	**(80,018,356)**	**41,502,959**

2011

	Gross balance	Provision for doubtful debt	Total
Property rates	119,475,060	(80,018,356)	39,456,704
Other	299,231	-	299,231
	119,774,291	**(80,018,356)**	**39,755,935**

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011

4. Receivables from exchange transactions (continued)

Trade receivable: ageing

	2012	2011
Current (0 - 30 days)	2,046,255	-
31 - 60 Days	-	4,189,234
61 - 90 Days	-	7,214,793
91 - 120 Days	-	7,333,028
121 - 365 Days	-	55,822,496
+ 365 Days	119,475,060	45,214,740
	121,521,315	**119,774,291**

Provision for bad debt - ageing of impaired receivables

	2012	2011
121 - 365 Days	-	(36,025,125)
+ 365 Days	(80,018,356)	(43,993,231)
	(80,018,356)	**(80,018,356)**

Trade receivables past due but not impaired

	2012	2011
Current (0 - 30 days)	-	-
31 - 60 Days	-	4,189,234
61 - 90 Days	-	7,214,793
91 - 120 Days	-	7,333,028
121 - 365 Days	-	21,018,880
+ 365 Days	39,456,705	-
	39,456,705	**39,755,935**

5. Inventories

	2012	2011
Consumable stores	312,304	251,226
Opening balance	251,226	264,713
Additions	816,497	549,133
Issued	(755,419)	(562,620)
Closing balance	**312,304**	**251,226**

Inventories comprises of office stationary.

6. Capitalised pre-paid expenses

	2012	2011
Capitalised pre-paid expenses	643,943	1,345,643

Capitalised pre-paid expense relates to pre-paid maintenance cost to be incurred within the next 12 months regarding disaster equipment.

7. VAT receivable

	2012	2011
SARS VAT refundable	226,966	10,322,717

8. Investments

	2012	2011
Fixed deposits	24,687	-
Listed investments	375,381	375,381
	400,068	**375,381**

The market value of the listed Sanlam investment at 30 June 2012 was R R 2 048 833.

Figures in Rand	2012	2011

9. Other financial assets

	2012	2011
At fair value through surplus or deficit - designated		
Non - current receivables	-	158,657
Non-current assets		
At fair value through surplus or deficit - designated	-	158,657

Non -current receivables consists of the following:

	2012	2011
Car		
Study loans	102,130	102,130
Housing selling schemes loans	56,527	56,527
Other non-current receivables	-	-
Less: Provision for bad debts	-	-
Car loans		
Staff loans	(102,130)	-
Other non-current receivables	(56,527)	-
	-	-
	-	**158,657**

10. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	7,165,083	-	7,165,083	7,165,083	-	7,165,083
Buildings	232,512,648	(11,078,206)	221,434,442	246,114,908	(7,516,909)	238,597,999
Furniture and fixtures	9,350,778	(2,016,215)	7,334,563	9,349,538	(1,085,078)	8,264,460
Motor vehicles	4,706,173	(2,743,530)	1,962,643	4,379,968	(2,225,303)	2,154,665
Office equipment	31,688,206	(21,801,955)	9,886,251	31,452,238	(13,105,423)	18,346,815
Plant and equipment	2,265,701	(926,319)	1,339,382	2,260,004	(480,115)	1,779,889
Bins and containers	4,289	(3,630)	659	4,290	(3,032)	1,258
Total	**287,692,878**	**(38,569,855)**	**249,123,023**	**300,726,029**	**(24,415,860)**	**276,310,169**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Land	7,165,083	-	-	-	7,165,083
Buildings	238,597,999	1,995,011	(13,519,715)	(5,638,853)	221,434,442
Furniture and fixtures	8,264,460	5,857	(4,128)	(931,626)	7,334,563
Motor vehicles	2,154,665	748,709	(19,905)	(920,826)	1,962,643
Office equipment	18,346,815	237,091	(226)	(8,697,429)	9,886,251
Plant and equipment	1,779,889	5,697	-	(446,204)	1,339,382
Bins and containers	1,258	-	-	(599)	659
	276,310,169	**2,992,365**	**(13,543,974)**	**(16,635,537)**	**249,123,023**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Depreciation	Change in estimate	Total
Land	-	7,165,083	-	-	-	7,165,083
Buildings	14,039,103	230,517,637	-	(5,958,741)	-	238,597,999
Furniture and fixtures	2,593,533	6,604,992	(645)	(958,410)	24,990	8,264,460
Motor vehicles	2,799,328	-	-	(837,438)	192,775	2,154,665
Office equipment	2,020,355	25,408,772	(117,009)	(10,036,099)	1,070,796	18,346,815
Plant and equipment	1,443,309	1,272,127	(501,660)	(433,887)	-	1,779,889
Bins and containers	8,360	-	(5,552)	(2,240)	690	1,258
	22,903,988	**270,968,611**	**(624,866)**	**(18,226,815)**	**1,289,251**	**276,310,169**

Refer to Appendix B for more detail on property, plant and equipment.

11. Payables from exchange transactions

	2012	2011
Trade payables	19,583,323	20,006,653
Retentions	3,481,917	9,573,906
	23,065,240	**29,580,559**

The fair value of trade and other payables approximates their carrying amounts.

12. Work in progress

	2012	2011
Construction work in progress	867,612	14,730,551

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011

13. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Provision for long service awards	-	5,223,000	(560,000)	4,663,000
Leave provision	3,203,893	676,817	(696,237)	3,184,473
Post retirement benefits	8,387,000	1,464,000	-	9,851,000
Provision for performance bonusses	-	600,000	(515,061)	84,939
	11,590,893	**7,963,817**	**(1,771,298)**	**17,783,412**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	3,822,099	317,559	(935,765)	3,203,893
Post retirement benefits	6,245,000	2,142,000	-	8,387,000
	10,067,099	**2,459,559**	**(935,765)**	**11,590,893**

Post retirement benefits

Opening balance of defined benefits	8,387,000
Interest cost	731,000
Current service cost	823,000
Expected employer benefit payments	(56,000)
Actuarial gain	(34,000)
	9,851,000

Net expense recognised in Statement of Financial Performance

Interest cost	731,000
Current service cost	823,000
Actuarial gain	(34,000)
	1,520,000

Long service awards

Transfer from accumulated surplus	4,603,000
Interest cost	439,000
Current service cost	622,000
Actuarial gain	(441,000)
Benefits paid	(560,000)
	4,663,000

Net expense recognised in Statement of Financial Performance

Interest cost	439,000
Current service cost	622,000
Actuarial gain	(441,000)
	620,000

Notes to the Annual Financial Statements

Figures in Rand — 2012 — 2011

13. Provisions (continued)

Post retirement benefit:
The municipality operates an accredited medical aid scheme. Employees who are not on a fixed contract participate in the post retirement medical assistance plan.

The post retirement assistance plan consisting of KeyHealth Medical Scheme (Keyhealth), LA Health Medical Scheme (LA Health) , Bonitas Medical Aid Fund (Bonitas); Hosmed Medical Scheme (Hosmed) and SAMWU National Medical Scheme (SAMWUMED). The members are entitled to a 60% retirement subsidy of the total contribution subject to a maximum of R 3 439 as from 1 July 2011.

These funds are subject to actuarial valuations. The last valuation was performed by an independant actuarial firm, Alexander Forbes, on 30 June 2012.

Long service awards:
The municipality rewards it's employees who are in service for an unbroken period of 10 years and longer. Employees are entitled/awarded leave days equivalent to number of years served eg. 10 years of service, one gets 10 days of leave, which can either be taken as leave or to be paid out in cash.

The awards were subjected to actuarial valuation by an independant actuarial firm, Alexander Forbes, on 30 June 2012.

Provision for performance bonusses:
Performance bonusses accrued to fixed contract employees subject to certain conditions being met.

Calculation of actuarial gains & losses
The following key assumptions were used at reporting date:

Post retirement benefits	
Discount rate	7.75%
Consumer Price Index Inflation	5.00%
Health Care Cost Inflation	7.00%
Salary Inflation	6.00%
Expected retirement age	65 years
Long service awards	
Discount rate	7.50%
Inflation rate	5.00%
Salary Inflation	6.00%

14. Long term liabilities

	2012	2011
Held at amortised cost		
DBSA loan	207,215,894	216,002,510
Non-current liabilities		
At amortised cost	197,340,223	207,249,415
Current liabilities		
At amortised cost	9,875,671	8,753,095
	207,215,894	**216,002,510**

Refer to Appendix A for more detail on borrowings.

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011

15. Finance lease obligation

	2012	2011
Minimum lease payments due		
- within one year	-	3,274,896
- in second to fifth year inclusive	-	9,278,872
	-	12,553,768
less: future finance charges	-	(604,377)
Present value of minimum lease payments	-	**11,949,391**
Present value of minimum lease payments due		
- within one year	-	3,005,966
- in second to fifth year inclusive	-	8,943,425
	-	**11,949,391**
Non-current liabilities	-	8,943,425
Current liabilities	-	3,005,966
	-	**11,949,391**

The municipality entered into an agreement with DOHA Supply Systems CC for the design, development and provision of infrastructure, operating, maintenance, training and transfer of the disaster management centre to the municipality at the end of the lease term.

The finance lease was settled on 30 June 2012.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2012	2011
Unspent conditional grants and receipts		
DWAF	706,699	-
Ehlanzeni District Municipality-FMG	-	217,786
Local Government	503,205	2,000,000
Municipal Systems Improvement Grant MSIG	1,870,802	1,463,973
Umjindi Lc Co-funding	343,466	-
Mbombela LC Co-funding	94,976	-
Baberton Mines (Pty) Ltd	83,591	-
	3,602,739	**3,681,759**

17. Rental of facilities and equipment

	2012	2011
Rental of property	72,401	2,482,685

18. Interest received

	2012	2011
Interest received - Other	415,854	6,368,999
Interest received - External investment	930,320	777,682
	1,346,174	**7,146,681**

19. Dividends received

	2012	2011
Dividends received - Sanlam Ltd	74,503	65,907

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Government grants and subsidies conditions met

Equitable share - National Treasury	169,305,386	166,259,751
Government grants and subsidies-FMG	1,467,786	-
Government grants and subsidies-MSIG	593,171	-
Government grants and subsidies-COGTA	19,992,599	-
Government grants and subsidies-DPLG	6,446,863	-
Government grants and subsidies-Mbombela LC Co-funding	2,087,524	-
Government grants and subsidies-Nkomazi LC Co-funding	4,464,927	-
Government grants and subsidies-Umjindi LC Co-funding	2,453,332	-
Government grants and subsidies-Baberton Mines (Pty) Ltd	316,409	-
Government grants and subsidies-Department Roads & Transport	1,496,795	-
Government grants and subsidies-EPWP Incentive	1,372,000	-
Government grants and subsidies-Human Settlement	1,964,912	-
	211,961,704	**166,259,751**

Community Based Public Works project

Balance unspent at beginning of year	-	-
Current-year receipts	-	2,109,775
Conditions met - transferred to revenue	-	(2,109,775)
	-	-

Conditions still to be met - remain liabilities (see note 16)

Human Settlement

Balance unspent at beginning of year	-	-
Current-year debtor	1,964,912	742,723
Conditions met - transferred to revenue	(1,964,912)	(742,723)
	-	-

Conditions still to be met - remain liabilities (see note 16)

DWAF

Balance unspent at beginning of year	-	2,751,853
Current-year receipts	7,153,562	-
Conditions met - transferred to revenue	(6,446,863)	(2,751,853)
	706,699	-

Conditions still to be met - remain liabilities (see note 16)

Finance Management Grant

Balance unspent at beginning of year	217,786	823,397
Current-year receipts	1,250,000	1,016,848
Conditions met - transferred to revenue	(1,467,786)	(1,622,459)
	-	**217,786**

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011

20. Government grants and subsidies conditions met (continued)

Local government: Department Road & Transport

	2012	2011
Balance unspent at beginning of year	2,000,000	3,087,022
Current-year receipts	-	2,000,000
Conditions met - transferred to revenue	(1,496,795)	(3,087,022)
	503,205	**2,000,000**

Conditions still to be met - remain liabilities (see note 16)

Municipal Systems Improvement Grant

	2012	2011
Balance unspent at beginning of year	1,463,973	1,158,986
Current-year receipts	1,000,000	750,000
Conditions met - transferred to revenue	(593,171)	(445,013)
	1,870,802	**1,463,973**

Conditions still to be met - remain liabilities (see note 16)

Department Sport & Recreation

	2012	2011
Balance unspent at beginning of year	-	2,766,595
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(2,766,595)
	-	-

PIMS

	2012	2011
Balance unspent at beginning of year	-	297,078
Conditions met - transferred to revenue	-	(297,078)
	-	-

COGTA

	2012	2011
Balance unspent at beginning of year	-	1,575,147
Current-year receipts	19,992,599	-
Conditions met - transferred to revenue	(19,992,599)	(1,575,147)
	-	-

Sanitation project

	2012	2011
Balance unspent at beginning of year	-	67,799
Conditions met - transferred to revenue	-	(67,799)
	-	-

Transitional fund

	2012	2011
Balance unspent at beginning of year	-	30,514
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(30,514)
	-	-

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011

20. Government grants and subsidies conditions met (continued)

SETA

Balance unspent at beginning of year	-	544,638
Current-year receipts	174,526	-
Conditions met - transferred to sundry income	(174,526)	(544,638)
	-	-

LED

Balance unspent at beginning of year	-	76
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(76)
	-	-

National & Provincial events

Balance unspent at beginning of year	-	18,578
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(18,578)
	-	-

Nkomazi LC Co-funding

Balance unspent at beginning of year	-	722,456
Current-year receipts	4,464,927	-
Conditions met - transferred to revenue	(4,464,927)	(722,456)
	-	-

Umjindi LC Co-funding

Balance unspent at beginning of year	-	10,602
Current-year receipts	2,796,798	-
Conditions met - transferred to revenue	(2,453,332)	(10,602)
	343,466	-

Conditions still to be met - remain liabilities (see note 16).

Department Local Government & Housing

Balance unspent at beginning of year	-	969,626
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(969,626)
	-	-

EPWP Incentive

Balance unspent at beginning of year	-	-
Current-year receipts	1,372,000	-
Conditions met - transferred to revenue	(1,372,000)	-
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Government grants and subsidies conditions met (continued)

Mbombela LC Co-funding

Balance unspent at beginning of year	-	-
Current-year receipts	2,182,500	-
Conditions met - transferred to revenue	(2,087,524)	-
	94,976	-

Conditions still to be met - remain liabilities (see note 16).

Baberton Mines (Pty) Ltd

Balance unspent at beginning of year	-	-
Current-year receipts	400,000	-
Conditions met - transferred to revenue	(316,409)	-
	83,591	-

Conditions still to be met - remain liabilities (see note 16).

Notes to the Annual Financial Statements

Figures in Rand

21. Employee related costs

	2012	2011
Basic	40,036,202	37,328,922
Bonus	2,089,285	2,454,730
Medical aid - company contributions	2,960,120	2,607,267
UIF	206,239	215,287
SDL	-	374
Leave pay provision charge	676,817	-
Post-employment benefits - pension - defined contribution plan	7,970,934	7,539,654
Travel, motor car, accommodation, subsistence and other allowances	9,964,835	9,697,992
Overtime payments	373,907	621,931
Acting allowances	414,322	207,448
Housing benefits and allowances	417,356	562,421
Telephone allowances	6,650	11,400
Industrial council levy	6,376	6,494
Standby allowances	-	4,000
	65,123,043	**61,257,920**

Remuneration of Municipal Manager

	2012	2011
Annual remuneration	919,746	849,969
Performance bonus	178,251	148,740
Car allowance	156,000	156,000
Contributions to UIF, medical and pension funds	248,603	388,693
	1,502,600	**1,543,402**

Remuneration of Chief Finance Officer

	2012	2011
Annual remuneration	646,255	585,645
Salary back pay / annual bonus	151,392	-
Travel, motor car allowance	264,384	218,216
Contributions to UIF, medical and pension funds	154,245	184,545
	1,216,276	**988,406**

Remuneration of the Manager: Office Municipal Manager

	2012	2011
Annual remuneration	433,963	682,072
Salary back pay / annual bonus	-	-
Travel, motor car allowance	136,500	170,076
Contributions to UIF, medical and pension funds	873	1,497
	571,336	**853,645**

Remuneration of section 56 managers -2012

Remuneration of the individual managers - 2012

	Community services	Technical services	Corporate services	LED & Tourism
Annual remuneration	714,402	284,462	668,593	665,229
Car allowance	180,000	45,000	192,000	204,000
Performance Bonuses	90,534	-	-	90,534
Contributions to UIF, medical and pension funds	145,923	20,048	179,910	171,170
	1,130,859	**349,510**	**1,040,503**	**1,130,933**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Remuneration of Councillors

Executive Major	765,314	726,719
Deputy Executive Mayor	-	511,464
Speaker	600,079	557,961
Councillors	8,580,793	7,055,711
Councillors' pension contribution	836,254	643,859
Chief Whip	577,806	270,451
Councillors other allowances	97,500	230,374
	11,457,746	**9,996,539**

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the council.

The Executive Mayor has the use of a council owned vehicles for official duties.

The Executive Mayor has a full-time bodyguard, a full-time driver and a full-time security guard at her residence, at the cost of the council.

23. Depreciation and amortisation

Property, plant and equipment	16,635,539	18,226,815
Investment property	-	-
Intangible assets	-	-
	16,635,539	**18,226,815**

24. Finance costs

Interest - other	1,378,870	919,311
Interest - DBSA	23,118,372	23,856,407
	24,497,242	**24,775,718**

25. Contracted services

Security services	-	45,125
Other contractors	4,547,759	3,819,887
	4,547,759	**3,865,012**

26. Grants and subsidies - Capital

Baberton Mines	316,409	-
COGTA	19,992,599	-
DWAF	6,446,863	-
Department of Roads & Transport	1,496,795	-
EPWP Incentives	1,372,000	-
FMG	1,467,786	-
Mbombela LC Co-funding	2,087,524	9,193,054
MSIG	593,171	-
UmjindiLC Co-funding	5,911,979	1,617,455
Nkomazi LC Co-funding	10,481,899	565,648
EDM	3,330,335	9,671,114
Human Settlement	1,964,912	-
Thaba Chewu LC Co-funding	-	3,843,522
	55,462,272	**24,890,793**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Audit fees

Audit fees	1,209,413	2,487,384

28. Property rates

Rates received

Residential	-	167,467,796
Less: Income forgone	-	(97,499,636)
	-	**69,968,160**

Valuations

Residential	-	304,858,567
Commercial	-	1,577,656,949
Public service infrastructure	-	14,993,306
Game farming	-	10,299,735,936
Other	-	65,635,461
	-	**12,262,880,219**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The municipality has since ceased levying the property rates after the 2011 municipal elections. The District Management Area was re-demacated to Mbombela Local Municipality, Bushbuckridge Local Municipality and Nkomazi Local Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. General expenses

Advertising	599,657	352,549
Bank charges	53,024	45,296
Bursaries	52,432	58,956
Clean up campaigns	358,238	-
Cleaning	1,256,080	1,885,377
Community outreach	772,904	87,868
Conferences and seminars	-	75,568
Consulting and professional fees	1,755,034	1,312,819
Consumables	51,260	47,050
Disaster management cost - centre	264,158	-
Disaster management operational cost	3,735,081	1,926,278
Electricity	2,081,382	1,594,142
Entertainment	536,960	436,602
Farming only	219,957	196,941
Fuel and oil	712,870	700,743
IT expenses	976,123	1,780,905
Insurance	417,554	596,157
Lease rentals on operating lease	233,875	5,429,017
Magazines, books and periodicals	16,721	24,942
Marketing	649,979	838,401
Municipal health operational cost	903,867	197,896
Other expenses	1,638,524	795,744
Postage and courier	5,278	8,698
Printing and stationery	755,419	562,620
Project maintenance costs	1,206,862	-
Promotions	119,342	2,515,559
Protective clothing	2,819	-
Research and development costs	304,564	-
Skills development levy	1,058,158	-
Subscriptions and membership fees	538,768	459,553
Telephone and fax	1,299,764	1,427,627
Tourism development	188,936	73,315
Training	1,438,331	1,013,632
Travel - local	2,753,737	1,922,305
Water	368,406	151,715
	27,326,064	**26,518,275**

30. Cash generated from (used in) operations

	2012	2011
(Deficit) surplus	(5,519,870)	46,215,698
Adjustments for:		
Depreciation and amortisation	16,635,539	18,226,815
Actuarial gain / (loss)	(475,000)	952,000
Loss on disposal of assets	13,444,973	157,123
Debt impairment	158,657	37,415,199
Movements in provisions	6,192,519	-
Revenue from non-exchange transactions	-	(6,481,083)
Investment income	(1,346,175)	(7,146,681)
Prior year operating transactions	(19,596,440)	(105,770,567)
Other non-cash items	-	24,775,718
Changes in working capital:		
Inventories	(61,078)	13,487
Receivables from exchange transactions	(1,747,023)	(38,534,427)
Consumer debtors	(158,657)	-
Payables from exchange transactions	(6,515,317)	(3,726,955)
VAT	10,095,751	19,759,477
Unspent conditional grants and receipts	(79,020)	(13,995,030)
Consumer deposits	-	6,000
Current portion of long term debt	-	(924,182)
	11,028,859	**(29,057,408)**

31. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	1,632,388	11,075,955

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	188,516	299,082
- in second to fifth year inclusive	329,897	-
	518,413	**299,082**

Operating lease payments represent rentals payable by the municipality for certain of its office printing machines. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable.

32. Contingencies

Contingent liability

Contractual disputes

Contractual disputes	4,056,938	3,896,529

Various contractual claims by contractors/employees are currently in dispute, and are being addressed through mediation. The maximum unforeseen liability is estimated at R 4 056 938 (2011: R 3 896 529).

33. Change in estimate

Property, plant and equipment

During the current period the useful lives & conditions of assets was assessed. The useful lives of certain classes of property, plant and equipment were changed to reflect the correct estimated remaining life.

The change in accounting estimates arose as a result of the changes in the expected pattern of consumption of economic benefit or service potential of depreciable assets.

The useful lives of the following classes of property, plant and equipement were changed to reflect the correct estimated remaining lives:

Category	Original useful life	Revised useful life	Effect of the change - current period	Effect of the change - prior period
Bins	5 years	7 years	121	-
Computer equipment	5 years	7 years	233,060	1,070,796
Furniture	10 years	13 years	-	24,991
Vehicles	5 years	8 years	-	193,464
			233,181	**1,289,251**

Impact on future periods:
The depreciation will be less by R 233 181 (2011: R 1 289 251) in future periods.

34. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

	2012	2011
Opening balance	-	-
Current year	40,890	-
Condoned by Municipal Manager	(40,890)	-
	-	-

The fruitless and wasteful expenditure for the current year relates interest charged on late payments to the Auditor General and Coris Capital. The late payments to the Auditor General was due to disputes on invoices. These expenses were condoned by the Municipal Manager.

35. Irregular expenditure

	2012	2011
Opening balance	-	-
Add: Irregular expenditure - current year	12,341,158	4,739,099
Less: Amounts condoned	(12,341,158)	(4,739,099)
Transfer to recoveries/debtors	-	-
	-	-

Details of irregular expenditure – current year

	Status as at 30 June 2012	
Emergency Water intervention	Condoned by Council - resolution A122/2012	8,659,720
Training on SCM bid committees	Condoned by Council - resolution A54/2012	196,080
Technical and non-technical investigation of electricity revenue losses	Condoned by Council - resolution A58/2012	122,807
Emergency supply and delivery of portible water	Condoned by Council - resolution A61/2012	429,828
Restoration of roads and/or routes	Condoned by Council - resolution A123/2012	2,162,217
Mayoral vehicle	Condoned by Council - resolution A115/2011	748,709
Deviations on quotations	Condoned by Municipal Manager	21,797
		12,341,158

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

36. Unauthorised expenditure

	2012	2011
Opening balance	-	415,541
Unauthorized expenditure - current year	-	209,999
Approved by council	(209,999)	(415,541)
Transfer to / (from) recoveries/debtors	209,999	(209,999)
	-	-

Details of unauthorized expenditure	Status	Amount
Unauthorized trip to Mexico - November 2010	Condoned by Council	209,999

37. Risk management

Financial risk management

Exposure to interest rate, liquidity and credit risks arises in the normal course of the Municipality's operations. The municipality has established a risk management committee, which is responsible for developing and monitoring the municipality's risk management policies. The risk management policies are established to identify and analyse the risks faced by the municipality, to set up risk limits and controls and to monitor risks and adherence to limits. Risk management policies are to be reviewed regularly to reflect changes in the municipality's activities.

Liquidity risk

Ehlanzeni District Municipality manages its liquidity risks by effectively managing its working capital, capital expenditure and external borrowings. Standby credit facilities in the form of an R20,000,000 bank overdraft facility has been negotiated with the main banker and provisionally approved. The overdraft facility will cater for any unexpected temporary shortfall in operating funds.

Interest rate risk

Ehlanzeni District Municipality is not exposed to any interest rate risks on its financial liabilities. As at the end of the financial year, 30 June 2011, Ehlanzeni District Municipality had only three fixed interest bearing loans with the Development Bank of Southern Africa (DBSA) as reflected in APPENDIX A. It should be noted that the interest in these three loans is fixed until maturity. Similarly, with financial assets, Ehlanzeni District Municipality invests its surplus funds not immediately required in a fixed interest rate deposit with the A+ rated banks for fixed terms not exceeding one year.

Credit risk

Ehlanzeni District Municipality manages its credit risk in its borrowing and investing activities by dealing with the A+ rated financial institutions and by spreading its exposure over a wide range of financial institutions in accordance with the approved cash and investment policy as was approved by council.

Foreign exchange risk

Ehlanzeni District Municipality is not exposed to any currency risks as all transactions are undertaken in Rand, i.e. the local currency. The municipality was not a party to any foreign exchange contract at the reporting date.

38. Related parties

Relationships

Members of key management		Refer to note 21&22
Entity of close family member of officials	Endecon Ubuntu (Pty) Ltd Brinzo Time CC	

Related party transactions

Purchases from related parties	2012	2011
Endecon Ubuntu (Pty) Ltd	717,242	-
Brinzo Time CC	385,884	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Revaluation reserve

	2012	2011
Opening balance	15,077,882	15,597,271
Change during the year	-	(519,389)
Transfered to accumulated surplus	(15,077,882)	-
	-	**15,077,882**

40. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Loans and receivables	Fair value through surplus or deficit - held for trading	Available-for-sale	Total
Trade and other receivables	41,502,959	-	-	41,502,959
Cash and cash equivalents	-	-	5,927,411	5,927,411
VAT receivable	1,075,708	-	-	1,075,708
Investments	-	400,068	-	400,068
	42,578,667	**400,068**	**5,927,411**	**48,906,146**

2011

	Loans and receivables	Fair value through surplus or deficit - held for trading	Available-for-sale	Total
Trade and other receivables	39,755,936	-	-	39,755,936
Cash and cash equivalents	-	-	4,676,392	4,676,392
VAT receivable	10,322,717	-	-	10,322,717
Investments	-	375,381	-	375,381
	50,078,653	**375,381**	**4,676,392**	**55,130,426**

41. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Other financial liabilities	207,215,894	207,215,894
Trade and other payables	23,065,241	23,065,241
Consumer deposits	6,000	6,000
	230,287,135	**230,287,135**

Figures in Rand	2012	2011

41. Financial liabilities by category (continued)

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	216,002,510	216,002,510
Trade and other payables	29,580,557	29,580,557
Consumer deposits	6,000	6,000
	245,589,067	**245,589,067**

42. Revenue

	2012	2011
Property rates	-	69,968,160
RSC Levies	-	33
Rental of facilities & equipment	72,401	2,482,685
Interest received	1,346,174	7,146,681
Dividends received	74,503	65,907
Government grants & subsidies	211,961,704	166,259,751
Revenue from non-exchange	-	6,481,083
Other income	508,512	4,529,223
	213,963,294	**256,933,523**

The amount included in revenue arising from exchanges of goods or services are as follows:

	2012	2011
Rental of facilities & equipment	72,401	2,482,685
Interest received	1,346,174	7,146,681
Dividends received	74,503	65,907
Revenue form non-exchange	-	6,481,083
	1,493,078	**16,176,356**

The amount included in revenue arising from non-exchange transactions is as follows:

	2012	2011
Taxation revenue		
Property rates	-	69,968,160
Transfer revenue		
Government grants and subsidies	211,961,704	166,259,751
RSC Levies	-	33
Other income	508,512	4,529,223
	212,470,216	**240,757,167**

43. Regional service council levies

	2012	2011
RSC Levies	-	33

44. Debt impairment

	2012	2011
Debt impairment	158,657	37,415,199

Schedule of external loans as at 30 June 2012

	Loan Number	Redeemable	Balance at 30 June 2011 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2012 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
DBSA - 61000886 Maturity date: 31/12/2029 Interest calculated at 11.12%			166,018,102	-	2,946,748	163,071,354	-	-
DBSA - 61000887 Mautity date 31/12/2020 Interest calculated at 6.75%			20,396,422	-	1,711,784	18,684,638	-	-
DBSA - 61000885 Mautity date 31/12/2016 Interest calculated at 11.43%			29,587,986	-	4,128,084	25,459,902	-	-
			216,002,510	-	**8,786,616**	**207,215,894**	-	-
Total external loans			**216,002,510**	-	**8,786,616**	**207,215,894**	-	-

Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012

	Cost/Revaluation							Accumulated depreciation					
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings													
Land	7,165,083	-	-	-	-	-	7,165,083	-	-	-	-	-	7,165,083
Buildings	246,114,908	1,995,011	(15,597,271)	-	-	-	232,512,648	(7,516,909)	2,077,556	(5,638,853)	-	(11,078,206)	221,434,442
	253,279,991	1,995,011	(15,597,271)	-	-	-	239,677,731	(7,516,909)	2,077,556	(5,638,853)	-	(11,078,206)	228,599,525
Other Assets													
Furniture	9,349,539	2,657,029	(2,655,790)	-	-	-	9,350,778	(1,085,079)	490	(931,626)	-	(2,016,215)	7,334,563
Office Equipment	31,452,238	22,267,405	(22,031,437)	-	-	-	31,688,206	(13,105,423)	898	(8,697,430)	-	(21,801,955)	9,886,251
Bins & Containers	4,289	541	(541)	-	-	-	4,289	(3,031)	-	(599)	-	(3,630)	659
Motor Vehicles	4,379,968	2,971,880	(2,645,674)	-	-	-	4,706,174	(2,225,303)	402,598	(920,826)	-	(2,743,531)	1,962,643
Plant & Equipment	2,260,003	389,086	(383,388)	-	-	-	2,265,701	(480,114)	-	(446,205)	-	(926,319)	1,339,382
	47,446,037	28,285,941	(27,716,830)	-	-	-	48,015,148	(16,898,950)	403,986	(10,996,686)	-	(27,491,650)	20,523,498

Analysis of property, plant and equipment as at 30 June 2012

	Cost/Revaluation							Accumulated depreciation					
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment													
Land and buildings	253,279,991	1,995,011	(15,597,271)	-	-	-	239,677,731	(7,516,909)	2,077,556	(5,638,853)	-	(11,078,206)	228,599,525
Other Assets	47,446,037	28,285,941	(27,716,830)	-	-	-	48,015,148	(16,898,950)	403,986	(10,996,686)	-	(27,491,650)	20,523,498
	300,726,028	30,280,952	(43,314,101)	-	-	-	287,692,879	(24,415,859)	2,481,542	(16,635,539)	-	(38,569,856)	249,123,023
Total	300,726,028	30,280,952	(43,314,101)	-	-	-	287,692,879	(24,415,859)	2,481,542	(16,635,539)	-	(38,569,856)	249,123,023

Appendix C
June 2012

Segmental analysis of property, plant and equipment as at 30 June 2012

	Cost/Revaluation							Accumulated Depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Prior period error Rand	Closing Balance Rand	Carrying value Rand
Municipality														
Chief Whip	138,646	422	-	-	-	-	**139,068**	-	-	(42,759)	(13,849)	-	**(56,608)**	82,460
Corporate Services	264,807,758	6,481,064	(16,023,100)	-	-	-	**255,265,722**	-	2,480,515	(13,700,765)	(8,747,333)	-	**(19,967,583)**	235,298,139
Disaster Management	-	21,013,851	-	-	-	-	**21,013,851**	-	-	(6,863,780)	(6,677,459)	-	**(13,541,239)**	7,472,612
Executive Mayor	1,641,462	756,269	(699,940)	-	-	-	**1,697,791**	-	-	(176,446)	(268,020)	-	**(444,466)**	1,253,325
Finance & SCM	2,594,341	498,826	(4,862)	-	-	-	**3,088,305**	-	-	(1,210,814)	(455,922)	-	**(1,666,736)**	1,421,569
Internal Audit	115,129	27,947	-	-	-	-	**143,076**	-	-	(46,208)	(24,499)	-	**(70,707)**	72,369
LED & Tourism	899,440	24,046	(201,491)	-	-	-	**721,995**	(24,415,859)	-	24,196,661	(72,980)	-	**(292,178)**	429,817
Municipal Health	26,757,005	14,981	(25,192,459)	-	-	-	**1,579,527**	-	-	(767,041)	(53,568)	-	**(820,609)**	758,918
Municipal Manager	1,821,232	4,900	(845,677)	-	-	-	**980,455**	-	-	(238,037)	(103,001)	-	**(341,038)**	639,417
Planning Department	-	905,450	-	-	-	-	**905,450**	-	-	(516,856)	22,525	-	**(494,331)**	411,119
Rural Development	-	320,602	-	-	-	-	**320,602**	-	-	(70,398)	(32,771)	-	**(103,169)**	217,433
Social & Transversal Issues	425,245	210,231	-	-	-	-	**635,476**	-	-	(209,594)	(58,426)	-	**(268,020)**	367,456
Speaker	435,106	100	(301,280)	-	-	-	**133,926**	-	-	(28,424)	(15,195)	-	**(43,619)**	90,307
Technical Services	1,090,664	22,262	(45,294)	-	-	-	**1,067,632**	-	1,028	(325,537)	(135,041)	-	**(459,550)**	608,082
	300,726,028	**30,280,951**	**(43,314,103)**	-	-	-	**287,692,876**	**(24,415,859)**	**2,481,543**	**2**	**(16,635,539)**	-	**(38,569,853)**	**249,123,023**

Segmental Statement of Financial Performance for the year ended

Prior Year				Current Year		
Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
			Municipality			
-	3,382,002	(3,382,002)	Office Executive Mayor	-	5,063,344	(5,063,344)
-	839,769	(839,769)	Office Rural Development	-	428,606	(428,606)
-	2,941,600	(2,941,600)	Office of the Speaker	-	3,053,458	(3,053,458)
-	4,586,927	(4,586,927)	Mayoral Committee	-	5,759,082	(5,759,082)
-	6,344,803	(6,344,803)	Office Municipal Manager	-	6,466,592	(6,466,592)
256,933,524	98,122,569	158,810,955	Finance	213,963,294	100,507,588	113,455,706
-	13,798,313	(13,798,313)	Corporate Services	-	13,693,303	(13,693,303)
-	5,576,430	(5,576,430)	Technical Services	-	4,872,714	(4,872,714)
-	12,646,902	(12,646,902)	Municipal Health and Environment	-	9,223,149	(9,223,149)
-	644,378	(644,378)	Office Chief Whip	-	1,207,146	(1,207,146)
-	45,791,689	(45,791,689)	Council General	-	43,201,709	(43,201,709)
-	1,176,698	(1,176,698)	Internal Audit	-	1,369,111	(1,369,111)
-	3,344,489	(3,344,489)	Transversal issues	-	3,450,207	(3,450,207)
-	6,640,806	(6,640,806)	LED and Tourism	-	7,734,448	(7,734,448)
-	4,880,449	(4,880,449)	Planning and development	-	6,503,201	(6,503,201)
-	-	-	Disaster Management and Public Safety	-	7,742,472	(7,742,472)
256,933,524	**210,717,824**	**46,215,700**		**213,963,294**	**220,276,130**	**(6,312,836)**

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current Year 2012 Act. Bal. Rand	Current Year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	-	-	-	-	
Levies	-	-	-	-	
Rental of facilities and equipment	72,401	80,000	(7,599)	(9.5)	
Interest received (trading)	1,346,175	3,000,000	(1,653,825)	(55.1)	The prime rate was reduced and thus interest rates in the bank did not look good, average interest rate on investment was 4%.
Dividends received	74,503	-	74,503	-	As was received from SANLAM when the dividends were declared
Government grants & subsidies	211,961,704	211,961,704	-	-	District municipality, only receive grants as major source of revenue
Other Income	508,512	788,000	(279,488)	(35.5)	Budget was less, therefore fewer sales on tender docoments.
	213,963,295	215,829,704	(1,866,409)	(0.9)	
Expenses					
Personnel	(65,123,045)	(64,448,224)	(674,821)	1.0	Provision for leave at 30 June 2012
Remuneration of councillors	(11,457,745)	(11,457,749)	4	-	
Audit fees	(1,209,413)	(1,209,413)	-	-	No interim audit was fully performed by the office of the Auditor - General.
Depreciation	(16,635,539)	(18,226,815)	1,591,276	(8.7)	
Finance costs	(24,497,242)	(24,550,266)	53,024	(0.2)	
Debt impairment	(158,657)	(158,657)	-	-	
Repairs and maintenance - General	(95,456)	(265,577)	170,121	(64.1)	less maintanance done, the building is fairly new and most components are still under waranty.
Contracted Services	(4,547,759)	(4,505,096)	(42,663)	0.9	
Grants and subsidies paid	(55,462,272)	(55,462,272)	-	-	
General Expenses	(27,326,064)	-	(27,326,064)	-	Was as a resullt of cost curtailment and therefore only spent where it was necessary
	(206,513,192)	(180,284,069)	(26,229,123)	14.5	

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current Year 2012 Act. Bal.	Current Year 2012 Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
Other revenue and costs					
Loss on disposal of Assets	(13,444,973)	(13,444,973)	-	-	Actuarial valuation as at the 30th of June 2012
Actuarial Gain / (Loss)	475,000	475,000	-	-	Actuarial valuation as at the 30th of June 2012
	-	-	-	-	
Net surplus/ (deficit) for the year	(5,519,870)	22,575,662	(28,095,532)	(124.5)	

Appendix E(2)

June 2012

Budget Analysis of Capital Expenditure as at 30 June 2012

Municipality	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Chief Whip	-	5,000	5,000	100	no purchase of new computer, cost curtailment
Corporate Services	2,015,374	4,028,643	2,013,269	50	over-budgeted the fencing of the building
Disaster management	-	12,500	12,500	100	no purchase as a result of cost curtailment
Executive Mayor	756,269	758,000	1,731	-	movement not significant
Finance and SCM	25,511	46,787	21,276	45	cost curtailment, certain assets could not be bought
Internal Audit	-	10,000	10,000	100	cost curtailment
LED & Tourism	24,046	30,000	5,954	20	saving as a result of cost curtailment
Municipal Health	14,910	18,218	3,308	18	saving - cost curtailment
Municipal Manager	4,900	45,000	40,100	89	saving - cost curtailment
Planning department	130,936	131,139	203	-	variance not significant
Rural Development	5,110	10,000	4,890	49	saving - cost curtailment
Social & Transversal issues	5,110	10,000	4,890	49	saving - cost curtailment
Speaker	-	7,500	7,500	100	saving - cost curtailment
Technical Services	10,199	10,000	(199)	(2)	variance not significant
	2,992,365	**5,122,787**	**2,130,422**	**42**	

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2012

Name of Grants	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld	Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jun		Yes/ No	
Equitable Share	14,824,404	11,449,476	8,948,779	39,735	9,862,345	7,044,532	3,874,493	14,481,027	-		Yes	N/A
Equitable Share	55,760,570	43,051,050	35,231,370	-	37,532,037	26,808,598	14,744,729	54,957,626	-		Yes	N/A
RSC Levies	-	-	-	-	-	-	-	-	-		Yes	N/A
Mbombela CO Funding	-	-	-	2,182,500	-	-	22,431	2,065,092	-		Yes	N/A
DWAF	-	1,182,158	5,971,158	-	-	-	3,524,829	2,922,034	-		Yes	N/A
FMG	1,250,000	-	-	-	-	-	-	1,467,786	-		Yes	N/A
MSIG	-	1,000,000	-	-	-	-	-	593,171	-		Yes	N/A
COGTA	-	3,490,193	16,502,405	-	-	-	3,114,866	16,877,732	-		Yes	N/A
SETA	174,526	-	-	-	-	-	-	174,526	-		Yes	N/A
Nkomazi CO Funding	-	-	4,464,927	-	-	-	2,605,484	1,859,439	-		Yes	N/A
Umjindi CO Funding	-	-	-	2,796,798	-	-	-	2,453,332	-		Yes	N/A
Human Settlement	-	-	-	-	-	-	-	1,964,912	1,964,912	The Department of Human Settlement was waiting for their Adjustment Budget before the amount could be paid over	Yes	N/A
EPWP Incentive	-	-	1,372,000	-	-	-	30,660	1,341,340	-		Yes	N/A
Baberton Mines	-	50,000	250,000	100,000	-	92,340	143,600	80,469	-		Yes	N/A
Local Government Dept of Roads	-	-	-	-	-	-	-	1,496,795	-		Yes	N/A
	-	-	-	-	-	-	-	-	-			
	72,009,500	60,222,877	72,740,639	5,119,033	47,394,382	33,945,470	28,061,092	102,735,281	1,964,912			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.